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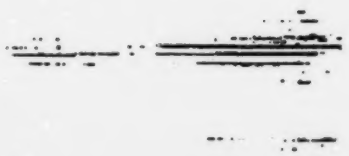
SONT DE PIÈTRE QUALITÉ DE REPRODUCTION

GOVERNMENT OF THE NORTHWEST TERRITORIES'
SUBMISSION TO THE
WORKING GROUP ON ENERGY SECURITY

JULY 1987



EXECUTIVE SUMMARY

The N.W.T. has the potential of producing a significant proportion of Canada's light oil requirements. Major development of N.W.T. oil reserves would make a substantial contribution to Canada's energy security, would strengthen Canadian sovereignty in the Arctic, and would provide economic benefits to all regions of Canada.

The Amauligak field in the Beaufort Sea is capable of producing 27,500 cubic metres (175,000 barrels) per day of high quality light crude oil. Development of this structure would enable reserves from smaller fields in the region to be developed and would provide the impetus for further exploration.

There is little exploration and less development taking place North of 60°, yet some of Canada's best prospects for future utilization lie in the northern frontier.

Most of Canada's new sources of supply are associated with major projects which require long lead times to develop. The lead times and risks associated with these projects must be reduced so that they can be brought on stream as soon as possible once rising oil prices justify their development. Unnecessary and costly regulatory development must be identified and removed from the process.

Government financial support for specific major energy projects is justified to achieve energy security and self sufficiency.

Introduction

Although the amount of oil consumed in the N.W.T. is not significant in national context, the N.W.T. could, based on proven oil reserves, produce a significant proportion of Canada's light oil requirements in the foreseeable future.

Development of N.W.T. reserves would not only make a substantial contribution to Canada's oil production capability, and hence its energy security, but would also strengthen Canadian sovereignty in the Arctic, and would greatly advance economic development in the North and Western Canada.

The Government of the Northwest Territories supports development of petroleum resources in the northern frontier in a timely and responsible manner.

N.W.T. Oil Resources and Reserves

The oil reserves and resources contained in the N.W.T. and offshore comprise one of Canada's most promising sources of new domestic supply. The Geological Survey of Canada estimates that the Beaufort Sea/Mackenzie Delta region alone contains discovered and potential oil resources of over 1450 million cubic metres, which compares with 1350 million cubic metres remaining in Western Canada.

Recent estimates of already discovered oil reserves in the region vary between 190 and 240 million cubic metres (1.2 and 1.5 billion barrels).

The Amauligak structure, discovered by Gulf Canada and partners in 1984, is a world class reservoir containing an estimated 700 to 800 million barrels of recoverable, high-quality light oil. The field is capable of producing 27,500 cubic metres (175,000 barrels) per day, and is the probable lead project for Beaufort development.

Planning for development and production from the Beaufort is less advanced than other major supply alternatives, such as Hibernia and oil sands projects. The NEB report "Canadian Energy - Supply and Demand, 1985-2005", for example, did not recognize the Amauligak field in its projections of timing and costs of Beaufort production.

Additional delineation drilling in the structure, which is to begin this year, is required before a decision can be made to proceed with full scale development. If the Amauligak reservoir justifies development, an oil pipeline would be built from the Beaufort Sea to the existing system in Alberta. With access to a pipeline, additional oil reserves from smaller fields in the area will come on stream.

Energy Security

Canada's energy security has been, and should continue to be, a central objective in Canada's energy policy. The importance of energy security and self-sufficiency has been affirmed in the Atlantic Accord and in the Federal Government's Frontier Energy Policy. With declining conventional domestic reserves and volatile world oil prices, energy security is as important an objective now as it has ever been.

Government financial support for specific major energy projects is justified to achieve energy security and self sufficiency. Without such support, Canada may continue to import oil which could be produced economically using non-conventional and frontier resources, and Canada's ability to protect itself from volatile prices and supplies from increasingly less reliable sources will be compromised.

Exploration Activity

Due to the downturn in world oil prices, there is very little exploration activity now taking place North of 60°, yet some of the best prospects Canada has for future oil discoveries lie in the northern frontier.

The dismantling of the industry's exploration capability will result in significant delays and in higher costs when activity returns to the area.

Acceleration of New Energy Projects

Most of Canada's new sources of supply are associated with major projects which require long lead times to develop. Governments should help accelerate these projects by providing assistance to: 1) advance pre-construction activities, and 2) reduce the high levels of risks presented by major project development.

An underlying objective for government initiatives in today's market environment should be to ensure that major energy projects can be brought on stream with a minimum of delay, once prices rise sufficiently to justify their development. Governments should therefore encourage certain levels of exploration, delineation and other pre-construction activity to take place, so that critical skills and technology are not lost or dissipated, and project schedules can be advanced. Incentives developed should encourage industry to continue to invest capital and expertise in the exploration of frontier reserves.

Governments should also be prepared to assist in reducing the risks of project investment by introducing certainty into the royalty structure, by simplifying the regulatory regime, and by providing financial support, or comfort as appropriate.

Economic Development

Economic development objectives may provide a legitimate justification for governments to support the construction of new energy projects, providing the levels of support and risks assumed by governments are reasonable.

In the case of the Beaufort Sea, the economic benefits that will result from full-scale development will flow to the North and to other regions of Canada. Although only a small percentage would accrue to the North, these benefits will make a very significant contribution to the northern economy, which has been very hard-hit by the drop in commodity prices.

Support for major new energy projects should be justified on a case by case review of anticipated direct and indirect benefits to the jurisdictions affected. These benefits will include energy security, economic growth and diversification, particularly in Western Canada and in the North, and a favourable impact on Canada's balance of payments.

Oil and Gas Management

A number of problems with the current system of oil and gas management hinder exploration and development in the northern frontier:

- New exploration rights have not been issued competitively in the N.W.T. since 1969, primarily because of unsettled aboriginal claims.
- The environmental and regulatory review of major projects is complex and duplicative.
- Federal Northern Benefits management has not achieved any degree of northern support.
- The federal oil and gas administrative regime locates major decision making in Ottawa, and is largely inaccessible to those who are most affected by oil and gas activity in the northern frontier.

The GNWT's commitment to gain responsibility for management of oil and gas resources of the N.W.T. responds to the Federal Government's Frontier Energy Policy, which states clearly the intention to develop shared management and resource revenue arrangements in the North.

The GNWT welcomes increased oil and gas responsibility, consistent with provincial type authority with other offshore Accords. Within the boundaries of the N.W.T., the GNWT seeks the complete transfer of oil and gas resources. For federal offshore areas, the GNWT seeks the establishment of a regime that reflects the equality of both governments.

Energy Use in the N.W.T.

Energy supply in the N.W.T., more than any other region in Canada, is dominated by the use of refined petroleum products. About 85% of the energy territorial residents consume is in the form of one petroleum product or another. If the proportion of electricity generated by diesel electric plants is included, almost 90% of energy consumption in the N.W.T. comes from petroleum.

This high degree of dependence on petroleum products, dominated by fuel oil and diesel fuel, reflects an underdeveloped energy supply system. Given the appropriate incentives and administrative arrangements, much greater use could be made of other sources of energy which are available within the N.W.T., such as wood, coal, wind and natural gas.

A number of federally-sponsored studies have been undertaken in the N.W.T. to examine the feasibility of alternative sources of energy. This work has provided a valuable foundation for domestic energy development in the N.W.T.

In addition to the considerable potential for alternative energy development in the N.W.T., there are ample opportunities for cost-effective savings through energy conservation. The GNWT is placing an emphasis on the need for increasing the efficient use of energy, and the Federal Government has provided major contributions to energy conservation initiatives in the north. There is uncertainty, however, about the direction of future initiatives during the post-NCAEI period. The Government of the N.W.T. encourages further inter-governmental discussions on conservation and alternative energy program development.

Considerations for the Working Group

The Government of the Northwest Territories suggests the following considerations be taken into account by the Working Group in the development of its recommendations to the Energy Ministers:

1) Canada's domestic supply capability has a fundamental influence on our nation's energy security position. Priority should therefore be given to measures which will increase the ability of Canada to seek, develop and research alternate energy sources, and increasingly provide for our own energy needs.

2) The greatest opportunities for major new sources of supply lie in non-conventional and frontier energy projects. These projects require long lead times and may not be economic under current oil prices. Given these conditions, government support should focus on measures which can be taken to minimize project lead times, and on the development of realistic incentives so that new sources of supply can be brought into production as soon as justified by market demand. The capability of the Canadian petroleum industry to undertake major new energy projects with minimum delay must be enhanced.

3) For major projects which are fundamentally economic and have private sector support, governments should be prepared to offer assistance to reduce risks, encourage early project initiation and ensure regulatory "red tape" does not unreasonably discourage development investment and activity.

4) The present approach followed by the Federal Government of reviewing projects on a case by case basis should be retained, and any new initiatives recommended by the Working Group should be supportive of eventual project-specific agreements.

GOVERNMENT OF THE NORTHWEST TERRITORIES'

SUMMARY OF PAPER

1. Nature of Problem

Canada's energy security has been, and should continue to be, a central objective in Canada's energy policy.

Government financial support for major energy projects is justified to achieve energy security and self sufficiency. Without such support, Canada may continue to import oil which could be produced economically using non-conventional and frontier resources, and Canada's ability to protect itself from volatile prices and supplies from increasingly less reliable sources will be compromised.

There is little exploration and less development taking place North of 60°, yet some of Canada's best prospects for future utilization lie in the northern frontier. The dismantling of the industry's exploration capability will result in significant delays and in higher costs when activity returns to the area.

2. Options and Recommendations: Long Term Measures

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